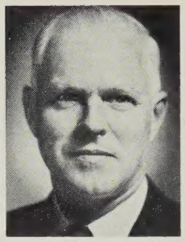
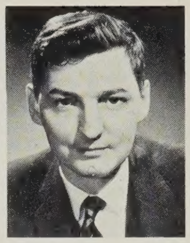
Kaiser Resources Ltd.
Annual Report 1970

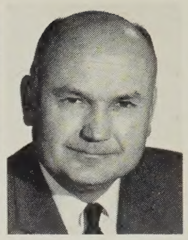

ASHBY


BORDEN


CARLSON

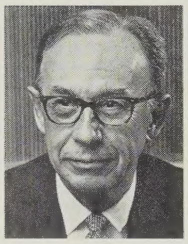

DAWSON

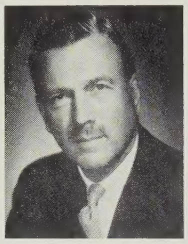

DESMARAIS

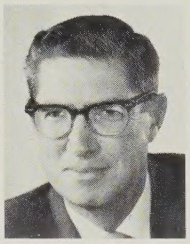

EMERSON


HAGER


HEERS

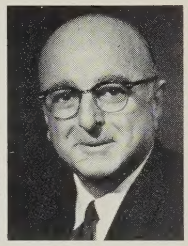

KAISER

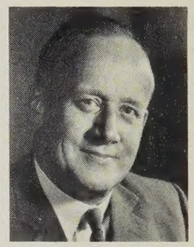

MACDONALD


MACILVAINE


MARKS


MCKINNON


TREFETHEN


WALKER


WILKINSON

Board of Directors

Jack L. Ashby*........Chairman of the Board, Kaiser Resources Ltd.; Vice-Chairman of the Board, Kaiser Steel Corporation

E. E. Trefethen, Jr.*....Chairman of the Executive Committee, Kaiser Resources Ltd.; President, Kaiser Industries Corporation

Graham R. Dawson*...Vice-Chairman of the Board, Kaiser Resources Ltd.; President, Dawson Construction Limited, Vancouver, B.C.

C. Lee Emerson*.......President and Chief Executive Officer, Kaiser Resources Ltd.; Executive Vice President, Kaiser Steel Corporation

Jack J. Carlson*.......President and Chief Executive Officer, Kaiser Steel Corporation

C. F. Borden...........Senior Vice-President, Kaiser Industries Corporation

Paul G. Desmarais......Chairman and Chief Executive Officer, Power Corporation of Canada Limited, Montreal, Quebec

*Member, Executive Committee

Roger T. Hager........Chairman, The Canadian Fishing Company Limited, Vancouver, B.C.

Robert G. Heers........Vice-President, Mining and Exploration, Resources Division, Kaiser Steel Corporation

Edgar F. Kaiser........Chairman of the Board, Kaiser Industries Corporation

William B. Macdonald..President, A. E. Ames & Co., Limited, Toronto, Ontario

C. A. MacIlvaine.......Vice-President, Finance and Planning, Kaiser Steel Corporation

William Marks.........Director, Kaiser Industries Corporation

I. N. McKinnon........Consultant, Calgary, Alberta

J. Leonard Walker......President and Chief Operating Officer, Bank of Montreal, Montreal, Quebec

E. D. H. Wilkinson.....Partner, Russell & DuMoulin, Barristers and Solicitors, Vancouver, B.C.

Officers

Jack L. Ashby . . . . Chairman of the Board
Graham R. Dawson . . . . . Vice-Chairman of the Board
E. E. Trefethen, Jr. . . Chairman of the Executive Committee
C. Lee Emerson . . . President and Chief Executive Officer
H. M. Conger . . . . . . Vice-President, Operations
David Hardy . . . . . . Vice-President and Secretary

R. G. Heers . . . . Vice-President
A. P. Heiner . . . . Vice-President
C. A. MacIlvaine . . . . Vice-President
J. R. Walker, Jr. . . . . Vice-President
R. A. Kjelland . . . . Treasurer
D. L. Tyler . . . . Controller

Kaiser Resources Ltd.
Head Office: Sparwood, British Columbia
Vancouver Office: 1177 W. Hastings Street
Vancouver 1, British Columbia
Principal subsidiary companies:
Westshore Terminals Ltd. Kootenay Coal Contractors Ltd.
Balmer Mine Limited Mountain View Realty Limited

Auditors: Touche Ross & Co., Vancouver

Transfer Agent: Canada Permanent Trust Co.
(Vancouver, Calgary, Winnipeg, Toronto, Montreal)

Registrar: National Trust Company Limited
(Vancouver, Calgary, Winnipeg, Toronto, Montreal)

Annual General Meeting: June 21, 1971

COVER: M.S. Chikugo Maru, berthed at Westshore Terminals, Roberts Bank, loads 110,000 long tons of Sparwood coal for export to Japan.

In 1970 your company experienced all the problems, delays, and extra costs involved in launching a large-scale and very complex business venture. It was in every sense a year of pioneering.

Yet, in a remarkably short period of time we:

...Opened up Canada's largest coal mine at Sparwood, B.C.

...Began operation of the new bulk handling facilities at Canada's finest deep water seaport at Roberts Bank.

...Brought together a team of mining, maintenance and office personnel and began the development of expertise to handle the wide variety of new tasks.

...Began supplying coal to world markets at shipping rates exceeding 4 million tons per year at the present time.

Our financial results were disappointing. The foundations we have laid are promising. Those foundations were shaped with the cooperation, effort and understanding of our employees, our customers, our suppliers, the Canadian Pacific Railway, our shareholders and financial supporters, and government agencies.

We sincerely appreciate the help received from these sources. We are confident that such support will be reflected in the ultimate success of this undertaking.

The problems encountered during this difficult year resulted in unusually high start-up and pre-production expenses at the underground and surface coal mining complex near Sparwood, B.C., and the new deep-water port at Roberts Bank.

Sales for the year were reported at $10,274,000, with an operating loss amounting to $4,699,000. These figures do not reflect sales revenues and inventory values of $24,020,000 primarily attributable to the new surface mining operations, which amount has been offset against deferred pre-production expenses. The net capitalized interest and pre-production expense in 1970 amounted to $13,094,000.

The reported losses are primarily attributable to:

...Increased underground mining costs resulting from changes in mining practices aimed at improving safety and working conditions.

...Extensive exploration on the company's property in the Sparwood area and at other locations in British Columbia.

...Reclamation costs reflecting improvements in the community and the reseeding of extensive areas.

...Recruitment and training costs incurred to build a stable work force.

...Start-up costs of new bulk handling facilities at Roberts Bank by Westshore Terminals, wholly-owned subsidiary of Kaiser Resources.

Kaiser Resources has 15-year contracts with the Japanese steel industry, which call for the annual delivery of approximately five million long tons of coking coal. The sales contracts require certain quality specifications for the coal at fixed prices, subject however to escalation from year to year to cover cost increases within defined limits, and subject to a right to reopen and renegotiate prices effective April 1, 1975.

The company's original plan involved the construction of a new open-cut mining operation utilizing large-scale mobile mining equipment and a major new coal preparation plant with related facilities capable of producing coal of the quality and in the quantity called for in the contracts. Certain unanticipated geological formations were encountered which, coupled with delays in pre-production stripping, resulted in lower production and increased costs. An important consequence of this situation was that the company was unable to achieve the originally contemplated low stripping ratios in the initial years. Further, the company experienced processing problems in the coal preparation plant and dryer.

To overcome these problems, mining plans have been revised and the acquisition of additional pit equipment has been accelerated. Planned modifications to the coal preparation plant and dryer to overcome the processing problems are now underway.

Substantial cooperation and assistance has already been received from the Japanese customers in the form of specification relief through March 31, 1971, commitments for major financing, and interim price adjustments to reflect the change in the U.S. - Canadian dollar exchange rates. The company is now discussing with its Japanese customers provisions for basic changes in the contracts, including price increases and permanent relief on ash specifications.

Because of the cooperative attitude already shown by the Japanese, coupled with their interest in high-quality Canadian coking coal, the company has confidence in securing further support from them. Without such support, additional financing will be required and substantial operating losses will continue to be faced by the company. While no assurances can be given at this time, the company believes that changes in the contract terms and proposed adjustments in the company's operations will provide a solution to its operating problems within the financial capabilities of Kaiser Resources as supported by its parent company, Kaiser Steel Corporation.

Building a Stable Work Force

Vital to the continuing buildup of company production and shipments is a trained and dedicated team of employees. The start-up problems at the mine and preparation plant have been accentuated by a severe employee turnover problem. To overcome this, the following extensive program is now underway aimed at building a stable work force:

...A home ownership plan in the Sparwood/Fernie area, whereby the company is extending help in financing home mortgages. To date, 280 homes have been purchased by our employees under this program.

...Company assistance in financing a Sparwood shopping center with plans now being formulated for a recreation center nearby.

...Recent negotiations with the United Mine Workers to establish wage scales recognized as competitive with other mining operations in western Canada.

...Major recruiting efforts throughout Canada, with increased emphasis in the Vancouver area, to obtain the qualified personnel necessary for efficient and optimum operation and maintenance of facilities.

...A formal training program to develop technical skills required in operating and maintaining the equipment.

...An expanded communications program directed at increasing employee morale and knowledge of company activities.

Land Reclamation Programs

Land reclamation programs—underway since the mine was purchased in 1968—were continued in 1970. These programs include reclamation of land previously mined but not reclaimed; test-planting of seedlings to produce a suitable high altitude variety of vegetation; reseeding of some 1,500 acres of mine property; initiation of erosion control programs in mining areas; and construction of a silt-retarding reservoir adjacent to our operations. In addition, Kaiser Resources has provided a continuing research fellowship at the University of British Columbia. Dr. J. V. Thirgood, who is in charge of the program, has called your company's efforts in land reclamation "truly significant work."

Westshore Terminals Ltd.

At Roberts Bank, B.C., the new port facilities of Westshore Terminals were placed in operation early in 1970. Certain start-up problems were encountered with the massive new bulk handling equipment, but by year's end operations were markedly improved.

The facility is designed to load ships from dockside stockpiles at a rate of 6,000 tons per hour, and is Canada's largest and most modern bulk handling terminal. It is estimated that this terminal will have an ultimate capability of loading more than 12 million tons of coal annually into ships. At the present time, new stockpile facilities are being installed in preparation for the handling of coal shipments from Fording River Coal Company, expected to begin in early 1972 at a rate of three million tons annually.

During 1970 equipment was installed at Westshore Terminals to deal with the problems of coal dust pollution. We are coating the surface of our entire coal stockpile with a binder that helps control the dust.

In November, a unique three-year labour contract was signed by Westshore Terminals and the International Longshoremen's and Warehousemen's Union. The contract, first of its kind in the industry, includes provision for employees to be paid a salary, rather than hourly wages. The agreement provides the advantages of round-the-clock scheduling, maximizing efficient operation of the facilities.

Both the port and the mine facilities were officially dedicated in June at ceremonies attended by Canadian, Japanese, U.S. and other international dignitaries. The Prime Minister of Canada, Pierre Elliott Trudeau, and the Premier of British Columbia, W. A. C. Bennett, were the keynote speakers dedicating the port facilities.

Basis for Long-Range Growth

Additional factors which underlie the long-run prospects for your company are the following:

...Within just the past year the company's exploration work has confirmed significant additional reserves of high-quality, economically mineable coal on the company's property in the Sparwood area.

...Early test results from the company's experimental underground hydraulic mine have exceeded expectations. This new coal mining technique shows promise of opening up certain large reserves of underground coal on a commercial basis which could not otherwise be mined economically by conventional methods.

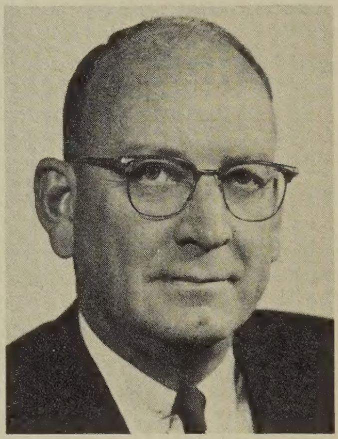
...The world demand for coking coal remains basically strong, and the market is expected to grow. In addition, prospects for our non-metallurgical coal in the world energy market appear to be bright.

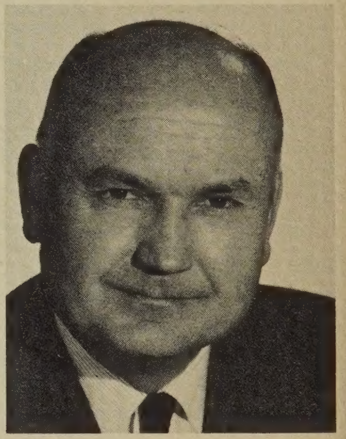
All in all, while the current problems are now in the forefront, we feel that the fundamentals exist for the success of this project and its long-range economic growth.

February 18, 1971

Jack L. Ashby
Chairman of the Board

C. Lee Emerson
President and
Chief Executive Officer





Sales

Coal and coke shipments of 710,000 net tons from the underground mining operations of Kaiser Resources Ltd. resulted in sales revenues of $10,274,000. Coal shipments from the new surface mining operations totaled 1,818,000 net tons resulting in sales revenues and inventory values totalling $24,020,000 which amount has been offset against interest and preproduction expense.

Net loss and deferred preproduction expenses

Operations principally involving the underground mines resulted in a net loss of $4,699,000, or $.47 per common share.

The net capitalized interest and preproduction expense in 1970 not offset by revenues and inventory values from the new surface mining operations amounted to $13,094,000. This brings the total of such costs capitalized since the mine development program was originally started to $22,558,000. It is not anticipated that there will be further deferrals in connection with the new surface mining operations in 1971.

Capital Programs

Capital expenditures for facilities and equipment totaled $20.0 million and related almost entirely to the final phases of the initial mine and port construction program. At December 31, 1970 total investment at cost in plant, property and equipment totaled $112.5 million for Kaiser Resources Ltd. exclusive of Westshore Terminals Ltd., and $10.0 million for Westshore Terminals.

Long-Term Debt

By the end of 1969 the company had borrowed $31.0 million under its $35 million bank credit agreement and total long-term debt was $37.9 million. During 1970 consolidated long-term debt was increased by $39.3 million to a total of $77.3 million at year-end. Principal elements in this increase included a final $4 million borrowing under the $35 million bank credit agreement, a $15 million borrowing under the $15 million bank credit agreement, a $10 million advance from Kaiser Steel Corporation and a $10.1 million advance under a $25 million loan agreement made on December 30, 1970 with Mitsubishi Canada Ltd.

Westshore Terminals Ltd. obtained a loan of $9.7 million from a U.S. bank and repaid a Kaiser Steel advance in the amount of $8.1 million.

At January 1, 1971, there remained US $15 million available for borrowing under the Mitsubishi loan agreement. The $35 and $15 million Canadian bank loans, the Mitsubishi $25 million agreement, and the $9.7 million Westshore Terminals borrowings are guaranteed by Kaiser Steel Corporation.

Kaiser Resources Ltd. and Subsidiaries
Consolidated Statement of Loss and Deficit for the Year Ended December 31, 1970

	1970	1969
Sales	**$10,273,610**	$10,876,013
Other revenue	**101,420**	7,517
	10,375,030	10,883,530
Costs and expenses:		
Costs and products sold	**10,095,679**	9,442,832
Exploration	**784,375**	—
Amortization of mine development	**262,680**	262,680
Selling, administrative and general	**2,622,519**	1,252,538
Depreciation and depletion	**835,429**	510,024
Interest on long-term debt	**501,175**	21,931
Deferred taxes on income	**(28,250)**	(303,250)
	15,073,607	11,186,755
Loss for the year	**(4,698,577)**	(303,225)
Retained earnings at beginning of year	**22,092**	325,317
(Deficit) Retained earnings at end of year	**$(4,676,485)**	$ 22,092
Loss per share of Common Stock	**($.47)**	($.03)

Consolidated Statement of Deferred Preproduction and Development Costs for the Year Ended December 31, 1970

	Harmer Ridge	Hydraulic Mining	**Total**
Balance at December 31, 1969	$ 9,210,442	$ 253,752	**$ 9,464,194**
Expenditures during the period:			
Exploration	172,169	105,937	**278,106**
Mine development, overburden and coal removal	17,004,210	582,794	**17,587,004**
Processing	5,837,524	—	**5,837,524**
Freight	6,932,248	—	**6,932,248**
Administrative and general expense	2,277,138	100,207	**2,377,345**
Interest	4,101,834	—	**4,101,834**
	36,325,123	788,938	**37,114,061**
Less:			
Revenue from coal shipments	19,571,701	544,940	**20,116,641**
Inventory of coal at net realizable value	3,903,818	—	**3,903,818**
	23,475,519	544,940	**24,020,459**
	12,849,604	243,998	**13,093,602**
Balance at December 31, 1970	$22,060,046	$ 497,750	**$22,557,796**

Consolidated Statement of Source and Application of Funds for the Year Ended December 31, 1970

	1970		1969	
Source of funds:				
Long-term debt		**$38,198,565**		$25,013,607
Issue of shares		**—**		44,919,625
		38,198,565		69,933,232
Application of funds:				
Net loss for the year	**$ 4,698,577**		$ 303,225	
Items not requiring an outlay of funds:				
Amortization of mine development	**262,680**		262,680	
Depreciation and depletion	**835,429**		510,024	
Less: Deferred taxes on income	**(28,250)**		(303,250)	
	1,069,859		469,454	
		3,628,718		(166,229)
Other assets		**1,911,532**		203,357
Purchase of property, plant and equipment		**18,834,530**		63,887,763
Deferred preproduction and development costs and other deferred charges		**13,080,956**		7,787,847
		37,455,736		71,712,738
Increase (decrease) in working capital		**742,829**		(1,779,506)
Working capital (deficiency) at beginning of year		**(4,411,844)**		(2,632,338)
Working capital (deficiency) at end of year		**$ (3,669,015)**		$ (4,411,844)

The notes to the consolidated financial statements are an integral part thereof.

Consolidated Balance Sheet as at December 31, 1970

Assets

	1970	1969
Current:		
Cash	**$ 1,073,595**	$ 620,527
Trade accounts receivable	**2,303,107**	1,230,327
Inventories (Note 3)	**11,135,458**	1,331,844
Prepaid expenses	**100,058**	80,763
	14,612,218	3,263,461
Other assets	**2,114,889**	203,357
Property, plant and equipment—at cost		
Land	**16,905,491**	15,615,363
Buildings and land improvements	**35,492,574**	1,114,376
Machinery and equipment	**64,256,402**	1,382,508
Construction work in process	**5,869,683**	84,437,857
	122,524,150	102,550,104
Less: Accumulated depreciation and depletion (Note 4)	**1,970,982**	1,135,553
	120,553,168	101,414,551
Deferred preproduction and development costs (Note 2)	**22,557,796**	9,464,194
Other deferred charges	**1,044,135**	1,319,461
	$160,882,206	$115,665,024

On behalf of the Board: C. A. MacIlvaine, *Director*

C. Lee Emerson, *Director*

Auditors' Report

To the Shareholders,
Kaiser Resources Ltd.

We have examined the consolidated balance sheet of Kaiser Resources Ltd. and its subsidiaries as at December 31, 1970, and the consolidated statements of loss and deficit, deferred preproduction and development costs and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As set forth in Note 1, continued performance under the present sales contract terms would result in substantial operating losses and would require additional financing. The company is revising mining plans, making modifications to the processing plant and is negotiating with its sales contract customers as to possible areas of revisions in contract terms.

In our opinion, subject to the satisfactory resolution of the matters referred to in Note 1, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970, and the results of their operations and the source and application of their funds for the year ended on that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.,
January 16, 1971.

TOUCHE ROSS & CO.
Chartered Accountants

Liabilities

	1970	1969
Current:		
Accounts payable	$ 8,058,932	$ 5,925,595
Employment costs and amounts withheld from employees	1,484,979	891,563
Note payable and accrued interest payable— affiliated companies	1,694,662	—
Other accrued liabilities	1,087,216	575,731
Instalments due within one year on long-term debt	5,955,444	282,416
	18,281,233	7,675,305
Long-term debt (Note 5)	77,277,458	37,939,377
Deferred taxes on income	—	28,250

Shareholders' Equity

	1970	1969
Capital stock (Notes 6 and 7)		
Authorized		
15,000,000 common shares of par value $1 each		
Issued and fully paid		
10,000,000 shares	10,000,000	10,000,000
Contributed surplus	60,000,000	60,000,000
Retained earnings (deficit)	(4,676,485)	22,092
Commitments and contingencies (Note 8)		
	$160,882,206	$115,665,024

The notes to the consolidated financial statements are an integral part thereof.

Notes to the Consolidated Financial Statements as at December 31, 1970

Note 1—General

The company is a party to long term contracts which provide for the annual delivery of approximately 5,000,000 tons of coking coal meeting certain specifications at fixed prices, subject to a right to reopen prices effective April, 1975. The company's original plan of operations contemplated the construction and development of a new open cut mining operation utilizing large scale mobile mining equipment and extensive related facilities capable of producing coal in accordance with contract quantity and specification requirements.

Unforeseen problems resulting principally in the inability to achieve contemplated low stripping ratios in the initial years and the inability to produce metallurgical coking coal meeting the sales contract specifications have resulted in failure to meet quantity and specification requirements and have necessitated substantial revisions in the original plan of operations.

Revised mining plans, which include the accelerated acquisition of certain mining equipment, are being developed and implemented. In addition, certain proposed modifications to the processing plant have been approved for implementation during 1971.

As well as the above, the company has entered negotiations with its sales contract customers as to possible areas of revision in contract terms, such as price increases, specification relief, and other provisions. Continued performance under the present contract terms would result in substantial operating losses and would require substantial additional financing. While no assurance can be given at this time, the company believes that changes in the contract terms together with planned revisions in the company's operations, will provide a solution to its operating problems within the financial capabilities of the company as supported by its parent, Kaiser Steel Corporation.

Note 2—Basis of Consolidation and Accounting Presentation

The accompanying statements consolidate the accounts of the company and its wholly-owned subsidiaries, Balmer Mine Limited, Westshore Terminals Ltd., Kootenay Coal Contractors Ltd., and Mountain View Realty Limited.

Current assets and current liabilities have, where applicable, been converted from U.S. dollars at the rate of exchange prevailing at December 31, 1970. All other amounts have been converted at rates of exchange at the date of each transaction.

In 1970 the company was unable to achieve and maintain a level of commercial production from the Harmer Ridge coal properties commensurate with the design capacity of the mining equipment and processing plant. As a result, all costs incurred to date, including production and processing, have been deferred and are reflected in the statement of preproduction and development costs with revenue derived from coal shipments to date credited thereto. The Hydraulic Mine development of Kootenay Coal Contractors Ltd. is also in the preproduction stage and reflected in deferred preproduction and development costs.

Upon commencement of commercial production the deferred preproduction and development costs will be amortized and charged to cost of products sold.

The statement of loss and deficit reflects the operations of Westshore Terminals Ltd., the Balmer North Mine and other operations excluding Harmer Ridge and the Hydraulic Mine.

Note 3—Inventories

Inventories at December 31, 1970 are summarized as follows:

	1970	1969
Finished and semi-finished products at net realizable value	$ 5,094,828	$ 450,008
Raw materials at net realizable value	838,140	191,103
Operating supplies at average cost	5,202,490	690,733
	$11,135,458	$ 1,331,844

Note 4—Depreciation and Depletion

Depreciation is based on the estimated useful life of the assets and expensed on a straight-line basis. Depreciation is not computed on assets relative to areas which have not attained a commercial level of production. Depletion is taken at a rate of 10¢ per ton of raw coal mined on properties in commercial production.

Note 5—Long-Term Debt

	Amounts Outstanding at December 31, 1970 Classified as	
	Current	Long-Term
(a) Term loans under Bank Credit Agreements	$ 4,200,000	$45,800,000
(b) Kaiser Steel Corporation	–	10,000,000
(c) Mitsubishi Canada Limited	–	10,100,000
(d) Bank of America National Trust and Savings Association	–	9,678,127
(e) Crows Nest Industries Limited	484,450	928,262
(f) Other long-term obligations	1,270,994	771,069
	$ 5,955,444	$77,277,458

(a) Bank Credit Agreements dated June 2, 1969 as amended December 15, 1970 provide for term loans aggregating $50,000,000, repayable as to $35,000,000 in 25 equal quarterly instalments of $1,400,000 beginning June 30, 1971 and repayable as to $15,000,000 in 12 equal quarterly instalments of $1,250,000 beginning June 30, 1973. $8,750,000 of the loan is repayable in U.S. dollars. However, the company may at its option convert the U.S. dollar loans to Canadian funds.

Interest is payable at 1½% in excess of the Canadian prime commercial rate with a minimum rate of 8½% as to $41,250,000 of loan principal and at 1% in excess of Euro-dollar inter-bank rate as to $8,750,000 of loan principal.

Kaiser Steel Corporation is guarantor of the loan.

(b) Repayment is subordinated to the extent of $5,000,000 under the $15,000,000 Bank Credit Agreement with subsequent payments applying equally to the reduction of the Kaiser Steel Corporation loan and the balance of $10,000,000 under the Bank Credit Agreement.

(c) Mitsubishi Canada Limited has agreed to advance up to $25,000,000 U.S. with interest payable quarterly at 3% in excess of the prime U.S. bank rate. Advances are repayable at a rate of $1.00 (U.S.) per long ton of coal delivered with a minimum repayment of $500,000 required by June 30, 1972 and minimum quarterly repayments of $1,250,000 thereafter.

Kaiser Steel Corporation is guarantor of the loan.

(d) An obligation of Westshore Terminals Ltd., payable in U.S. dollars on or before May 11, 1973, with interest payable quarterly at ½ of 1% in excess of the prime U.S. bank rate on 90 day loans.

Kaiser Steel Corporation is guarantor of the loan.

(e) Payable at $309,421 semi-annually February 1st and August 1st to and including February 1, 1973.

(f) $1,907,639 payable in U.S. dollars at varying interest rates based on prime U.S. bank rate and Euro-dollar inter-bank rates up to 10% per annum.

Kaiser Steel Corporation is guarantor of a substantial portion of this amount.

(g) Under the terms of the Bank Credit Agreements, the company must maintain net current assets of at least $5,000,000 during the period January 1, 1972 to December 31, 1972. On and after January 1, 1973, current assets must equal not less than two times current liabilities with net current assets of at least $10,000,000.

Note 6—Capital Stock

As at December 31, 1970 Kaiser Steel Corporation holds 75% of the total issued common shares.

Note 7—Restrictions on Payment of Dividends

The declaration and payment of dividends is presently prohibited under the terms of various long term debt agreements.

Note 8—Commitments and Contingencies

(a) The company has entered into a service contract with Mitsubishi Canada Limited for the period from December 9, 1970 to the end of the Japanese Sales Contracts. The remuneration is payable in the amount of 10¢ per long ton of coal shipped pursuant to the Sales Contracts.

(b) The company is committed to a production payment of 50¢ per ton to Crows Nest Industries Limited beginning January 1, 1977 to a maximum of $34,000,000.

(c) By agreement, the underground hydraulic coal mining operation will, when brought into production, be conducted under a joint venture agreement whereby the company will maintain a 70% interest.

(d) Capital construction commitments not reflected in the consolidated financial statements total approximately $6,800,000.

(e) The company, through its wholly-owned subsidiary Westshore Terminals Ltd., has entered into a lease with the National Harbours Board termininating March 31, 1985 with two 15 year renewal options for the lease of land at Roberts Bank. The annual payments are approximately $250,000.

Note 9—Remuneration of Directors

Aggregate remuneration paid to Directors was $36,250.

Kaiser Resources' Officials Appointed

The Company's Board of Directors at a January 1971 meeting appointed C. Lee Emerson as president and chief executive officer of Kaiser Resources. Mr. Emerson succeeded Jack J. Carlson, president of the parent company, Kaiser Steel Corporation, who remains as a Board member and a member of the executive committee of Kaiser Resources. Mr. Emerson, a director of Kaiser Resources, formerly served as executive vice-president in charge of the Resources Division of Kaiser Steel.

At the same meeting, the Board named Harry M. Conger as vice-president and general manager of Kaiser Resources, with offices at the Sparwood, B.C., mine. Prior to his appointment, Mr. Conger was general manager of operations at Sparwood. He moved to this position after serving as manager of mine properties and the pellet plant at Kaiser Steel's Eagle Mountain, California, iron ore mine.

Vancouver Executive Named Vice-Chairman

Graham R. Dawson, president of Dawson Construction Limited, Vancouver, was named vice-chairman of the Board and a member of the executive committee in February 1971. Mr. Dawson, a director of several other Canadian firms and a graduate of Royal Roads Naval College and the University of British Columbia, joined Kaiser Resources' Board of Directors in May 1970.

Efficient Unit Train Transports Coal to Port

The first unit train carrying coking coal from the Sparwood mine left on March 16, 1970, transporting coal for export to Kaiser Resources' Japanese customers. The continuing shipments of coking coal are carried in Canadian Pacific Railway unit trains which employ up to 13 diesel locomotives in hauling the coal up steep Rocky Mountain grades to our port at Roberts Bank.

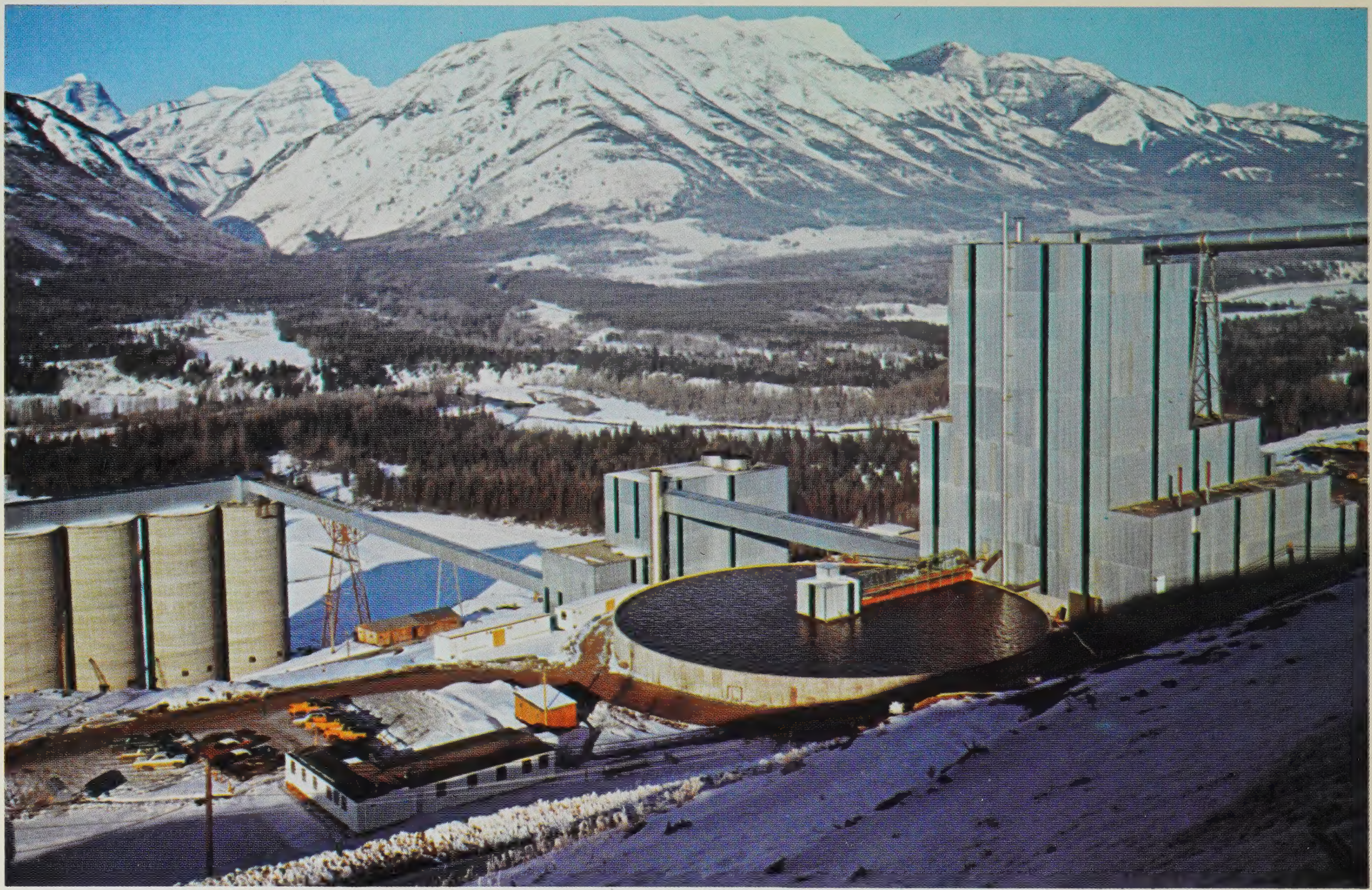
The unit train concept, in which the same cars remain coupled on their 1400-mile shuttle run from the mine to port and back, provides a highly effective method for carrying bulk materials on a continuous basis. The four CPR unit trains comprise one of the most efficient transportation concepts in North America.

New Canadian Directors Named

During 1970 the Board of Directors of Kaiser Resources was enlarged to broaden the board's experience in financial and business interests in Canada. The board, now numbering 16 members, was enlarged to welcome five distinguished businessmen from Canada.

The new members are Messrs. G. R. Dawson and R. T. Hager, of Vancouver; W. B. Macdonald of Toronto, and P. G. Desmarais and J. L. Walker of Montreal. Previously elected Canadian board members are I. N. McKinnon of Calgary and E. D. H. Wilkinson of Vancouver.

Kaiser Resources' mine and port facilities were officially dedicated in June 1970 at colorful ceremonies attended by Canadian, Japanese, U.S. and other international dignitaries. Keynote speaker at the dedication of our Westshore Terminal was the Prime Minister of Canada, Pierre Elliott Trudeau . Other speakers included Edgar F. Kaiser (right), chairman of Kaiser Industries and a director of Kaiser Resources, the Premier of British Columbia, W. A. C. Bennett, the Premier of Saskatchewan, W. Ross Thatcher, and the Minister of Transport, the Honourable Donald C. Jamieson. The Sparwood coal complex was dedicated the following day with British Columbia's Minister of Mines, the Honourable Frank X. Richter, as one of the guest speakers.



Coal is processed through this preparation plant near Sparwood, then stored in silos before being loaded into unit trains.

Unit trains, carrying up to 10,000 short tons, transport coal to Westshore Terminals, Kaiser Resources' deep water port at Roberts Bank, B.C.

KAISER RESOURCES

Printed in Canada